INTERNATIONAL SHOE CO.

General Balance Sheet

As prepared by Marwick, Mitchell & Co., Certified Public Accountants.

(In which is Consolidated the Assets and Liabilities of W. H. McElwain Company, Boston)

As at November 30, 1921.

ASSETS

Current and Working Assets:		
Cash in Banks and on Hand		$ 1,702,889.15
Notes Receivable, consisting principally of Installment Notes accepted in disposing of Branch Houses and Other Investments		2,237,328.78
Accounts Receivable:		
Customers, less Reserve for Discounts and Doubtful Accounts		17,727,462.79
Salesmen's Traveling Advances and Sundry Accounts		247,843.78
Inventories:		
Manufactured Merchandise	$ 5,792,730.71	
Raw Materials, Supplies, and Merchandise in Process	13,722,391.00	19,515,121.71
Total Current and Working Assets		41,430,646.21
Loans and Advances to Employees and Others, secured by Preferred and Common Stock of International Shoe Company and by Personal Guarantees		447,232.92
Expenses Paid in Advance—Insurance Premiums, Interest, Taxes, and Other Deferred Charges against Operations		280,440.83
Investments in Stocks and Bonds of Other Companies—at Cost		646,009.9[illegible]
Physical Properties at Tanneries, Leather and Shoe Factories, and Distributing Warehouses:		
Land and Water Rights	$ 605,923.33	
Building and Structures	7,703,731.74	
Machinery and Equipment	7,674,010.28	
Total	$15,983,665.35	
Less—Reserve for Depreciation	6,092,101.23	
Net Depreciated Cost of Physical Properties,		$ 9,891,564.1[illegible]
Goodwill, Trademarks and Brands		12,750,000.0[illegible]
Total		$65,445,894.0[illegible]

LIABILITIES

Current and Accrued Liabilities:		
Notes Payable:		
Banks and Brokers		$ 6,500,00[illegible]
Individuals and Companies		224,50[illegible]
Accounts Payable for Merchandise, Expenses, Payrolls, Etc.		4,300,64[illegible]
Officers and Employees Balances, Deposits, Etc.		479,76[illegible]
Total		$11,504,9[illegible]
Reserve for Income and Profits Taxes		950,[illegible]
Total Current and Accrued Liabilities		12,454,[illegible]
Reserve for Dividends on Preferred Stock		88,[illegible]
Minority Stockholders of W. H. McElwain Company—estimated amount payable to Minority Stockholders of W. H. McElwain Company under exchange offer of International Shoe Company, for which Preferred and Common Stock of the latter has been reserved		353,4[illegible]
Capital Stock:		
Preferred, 8% Cumulative:		
Authorized—250,000 Shares of $100 each, whereof issued and outstanding, 177,643 Shares	$17,764,300.00	
***Common Stock:**		
Authorized—1,400,000 Shares without nominal or par value, whereof issued and outstanding, 911,279 Shares	34,784,376.35	
Total Capital Stock		$52,548,676.35
Total		$65,445,894.05
Contingent Liabilities Ascertained—Guarantee on Bank Credits extended to Foreign Representatives		$ 288,000.00

*Common Stock Outstanding at November 30, 1920, having a par value of $100 per Share exchanged for 765,000 Shares of new Common Stock without nominal or par value		$12,750,000.00
Surplus, as at November 30, 1920		14,843,844.09
Reserve for Trade Conditions affecting Raw Material Market		1,000,000.00
Common Stock Equity at November 30, 1920		$28,593,844.09
Common Stock issued during year ended November 30, 1921 as part consideration for acquisition of Tannery and Other Properties of Kistler, Lesh and Company, stock of W. H. McElwain Company, and stock sold for cash—146,279 Shares		$ 4,689,182.13
Net Earnings for Year ended November 30, 1921	$ 5,025,441.73	
Less—Provision for Federal Taxes	859,247.04	4,166,194.69
Total		$37,449,220.91
Less—Dividends Declared:		
Preferred Stock	$ 1,128,190.60	
Common Stock	1,536,653.96	2,664,844.56
Common Stock Equity at November 30, 1921		$34,784,376.35

INTERNATIONAL SHOE CO.

1505 WASHINGTON AVENUE

EXECUTIVE OFFICE

ST. LOUIS, MO.

December 21, 1921.

TO OUR STOCKHOLDERS:

Following our custom to inform you at this time each year of the affairs of the Company, we give you the following summary of our business for the year ending November 30, 1921.

The three sole leather tanneries which, you will recall, were acquired in the Spring from Kistler, Lesh & Company, and those already operated by the Company are now going at full capacity, making an average of 7800 sides of good leather per day and showing a profit on the basis of the lowest market value for similar leathers.

During the year, our Western factories produced slightly more than 21,000,000 pairs of shoes, a gain of 3,500,000 pairs or 20% over the actual production during the preceding year. This gain was accomplished during the last six months of the year and the output of these factories during November averaged more than 90,000 pairs per day, counting six full working days per week.

The W. H. McElwain Company, which you will recall was acquired last May, is now producing 27,000 pairs per day compared with 12,000 pairs per day at the date of the purchase. We believe that, without increasing its factory space or equipment, this unit can make a further gain of 8,000 pairs per day, thus increasing our average daily production to 125,000 pairs.

Substantial additions to our Paducah, Ky., and Cape Girardeau, Mo., factories are under construction and within ninety days two new factories-- one at Sweet Springs, Mo. and another at St. Clair, Mo.—will be in operation.

There has been a splendid and mutually profitable co-operation between this Company and the citizens of the towns in which our factories are located. These factories have operated harmoniously and continuously during the trying period through which the country has passed; and our weekly payrolls have been important factors in the commercial life of these towns. The additions, just mentioned, should increase our output 10,000 pairs per day.

For more than three years additional manufacturing capacity has been urgently needed in order to supply the rapid and increasing demand for our shoes. The acquisition of the McElwain factories offered a speedy,though partial, relief to this situation and since the St. Louis distributing houses had developed greater efficiency and economy in the distribution of merchandise, it was deemed advisable to dispose of some of the jobbing houses and close others that had been maintained by the W. H. McElwain Company.

The factories of the McElwain Company at the time of the purchase were equipped to make men's and boys' shoes; but since the McElwain Company became a part of the International Shoe Company, several of these factories have been re-arranged and equipped to make women's, misses' and children's shoes, thus creating a wider distribution by appealing to a much larger number of consumers and stimulating a greater demand for our product.

In accordance with our custom, all raw materials and finished merchandise which were acquired through W. H. McElwain Company have been re-valued at cost or actual value, whichever was lower, and on this basis both the finished product and the raw

materials, when converted into shoes, should show a satisfactory profit. By reason of the factory changes mentioned above, a large part of the lasts and patterns for men's and boys' shoes became useless and a large expenditure was necessary to equip the converted factories with new lasts and patterns for women's and misses' shoes. This new equipment, as customary with us, has been charged off. Other necessary changes have entailed expenditures which have been charged off, but we are now utilizing the enlarged facilities for the production of shoes of the kinds most needed, and the earnings of the Company should be substantially increased.

All bad and doubtful accounts and notes have been charged out and against the remaining accounts there has been set up a reserve much larger than in any previous year. Real Estate and factory equipment accounts of McElwain Company have been reduced $500,000.00, thus making the book value of these assets about $2,000,000.00 less than their appraised value—the corresponding properties of the Company's Western branches are being carried at $4,000,000.00 less than their appraised value, so that the combined values of these properties are $6,000,000.00 below their appraised value.

We now have on hand unfilled orders in excess of $38,000,000.00, assuring capacity operation for all of our plants for at least five months. The total operations of the International Shoe Company, including W. H. McElwain Company and Kistler, Lesh & Company show net earnings for the fiscal year ending November 30th of $5,025,441.00. After making provision for Income and Profit Taxes of $859,247.00 and Dividends at the rate of 8% on Preferred and $2.00 per share on Common stock, amounting to $2,664,844.00, there remains a net balance of $1,501,350.00, which has been passed to the "Common Capital Stock Account". A dividend on the entire issue of Preferred stock has been declared and set aside for the calendar year 1922 and a dividend on the Common stock has been declared and set aside for the first six months of 1922.

The demand for our shoes continues to increase. During the period from October 7th to December 10th, our Western branches received firm orders for 16,944,000 pairs of shoes, representing the production of our Western factories at the rate of 100,000 pairs per day for 169 working days. Having anticipated our factory production for this period, the Company, realizing its primary duty to serve well its old, established customers, found it necessary to decline much new business which was offered to it.

Our factory production is now 40% greater than the daily average combined production of the Eastern and Western factories for the year 1920, and all our factories will be run to their capacity in order to meet our sales. The Company has ample capital, however, to care for a much larger business than it is now doing, and we confidently look forward to further increases in our business, thus giving employment to our capital and insuring increased earnings to the stockholders.

Yours very truly,

INTERNATIONAL SHOE COMPANY

Jackson Johnson

Chairman of the Board.

P. S. The enclosed pamphlet contains interesting and instructive information regarding the Company--We suggest that you read carefully and RETAIN THIS PAMPHLET for future reference.